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Investors Capital Trust plc

Annual Report 2006

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Company Summary

The Company	<p>The Company is an investment trust and its shares are listed on the London Stock Exchange. It is a member of the Association of Investment Companies ('AIC').</p> <p>Assets attributable to shareholders at 30 September 2006 were £218m</p>
Objective and Policy	<p>The Company's investment objective is to provide holders of ordinary units with an attractive dividend yield and with capital growth through investment in UK equities and predominantly UK fixed interest securities. Within this overall investment objective, the Company aims to provide attractive returns on each class of share.</p>
Management	<p>The Board has appointed F&C Asset Management plc (F&C) as investment managers. The annual management fee is equal to 0.8 per cent of total assets and the notice period is 6 months. Further details of the management contract are provided in the Notes to the Accounts on page 34.</p>
Capital Structure and Life	<p>The Company currently has zero dividend preference shares, income shares and capital shares in issue which, at 30 September 2006, had a combined market capitalisation of £210m. In addition the Company has a fixed rate term loan facility amounting to £105m. A full explanation of the capital structure is given on pages 15 to 17.</p> <p>The Company has a planned life to 28 February 2007, subject to the ability of Shareholders to approve an extension.</p>
How to Invest	<p>F&C Asset Management plc operates a number of investment plans which facilitate investment in the ordinary units of the Company. Details are contained on page 47.</p>
PEP/ISA Status	<p>The Company's shares are eligible for ISAs and PEP transfers and can continue to be held in existing PEPs.</p>
Website	<p>The Company's internet address is www.investorscapital.co.uk</p>
Telephone	<p>F&C Asset Management plc Investment Services 0845 600 3030</p>

Financial Highlights

- Total dividends for the year of 5.35p per income share
- Dividend yield of 6.4 per cent on ordinary units at 30 September 2006
- Net asset value per ordinary unit at 30 September 2006 of 86.6p
- Net asset value total return per ordinary unit for the year was 9.6 per cent
- Share price total return per ordinary unit for the year was 9.6 per cent

Performance Summary

	30 September 2006	30 September 2005
Total Return		
Net asset value total return per ordinary unit	9.6%	21.8%
Share price total return per ordinary unit	9.6%	30.7%
Revenue and Dividends		
Revenue return per ordinary unit§	£13.3m	£12.4m
Dividends per ordinary unit	5.35p	5.35p
Revenue reserves per ordinary unit	2.49p	2.53p
Equity portfolio yield relative to FTSE All Share Index	112%	109%
Capital		
Total assets (less current liabilities)*	£323.0m	£318.6m
Net asset value per ordinary unit	86.6p	84.2p
FTSE All Share Index	3,050.4	2,745.8
Ordinary unit price	83.75p	81.50p
(Discount)/Premium (% difference between price and net asset value)		
Ordinary unit price	(3.3%)	(3.2%)
Gearing (100=nil geared position)†		
Maximum potential ratio	148.4	150.6
Total expense ratio‡		
as percentage of average shareholders' funds	1.61%	1.74%
2006 Year's Highs/Lows	High	Low
Net asset value per ordinary unit	90.5	79.4
Ordinary unit price	87.0	78.0
Ordinary unit premium/(discount)	1.9	(7.2)

Current liabilities exclude the bank loan, interest rate swap and assets attributable to shareholders

† The gearing ratio indicates the extra amount by which shareholders' funds would rise or fall if total assets were to rise or fall. A figure of 100 means that the Company has a nil geared position.

Maximum potential ratio – the ratio of total assets (including fixed interest and cash assets) to assets attributable to shareholders.

If securities held in the Company's Fixed Interest portfolio are included as fixed interest assets then the actual ratio will be as shown below.

Actual ratio – the ratio of total assets (less fixed interest and cash assets) to assets attributable to shareholders.

Actual ratio: 30 September 2006: 98.6 (30 September 2005: 94.8)

‡ Excludes estimated liquidation costs

§ Consists of revenue loss for the year of £106,000 (2005: loss of £1,089,000) plus dividends paid on income shares of £13,444,000 (2005: £13,444,000)

Chairman's Statement

J M Haldane
Chairman

Investment Objective and Policy

The Company's investment objective is to provide holders of ordinary units with an attractive dividend yield and with capital growth, through investment in a portfolio of UK equities and predominantly UK fixed interest securities. Within this overall investment objective, the Company aims to provide attractive returns on each class of share.

The Company's investment portfolio is divided into two parts, an equities portfolio and a fixed interest portfolio. At 30 September 2006, 67 per cent of the Company's investments was represented by the equities portfolio, equivalent to £215 million, including cash balances. The remaining 33 per cent was represented by the fixed interest portfolio, equivalent to £108 million, and this compares to the bank borrowings of £105 million. The Company does not invest in the securities of split capital investment trusts.

Investment Performance

The year to 30 September 2006 produced another strong performance from the UK equity market, extending the recovery which started in March 2003. The key factors driving markets were, once again, stronger than expected corporate earnings results

and a continued high level of merger and acquisition activity. It is encouraging that, despite strong progress in recent years, UK equity market valuation measures do not appear overextended. The FTSE All Share Index rose 14.7 per cent in total return terms during the year.

The background for corporate bonds has been more challenging than that for equities. I suggested in my report last year that while economic and corporate sector fundamentals remained supportive of corporate bond markets this was already largely reflected in prices and therefore we anticipated 'a year of modest returns'. This proved to be the case with the fixed interest portfolio producing a total return of 4.7 per cent, less than the cost of the Company's borrowing. Higher yielding corporate bonds produced the most attractive returns within the fixed interest portfolio, while returns from investment grade bonds were only slightly better than those from government securities.

The Company's net asset value total return (capital performance with dividends added back) per ordinary unit increased by 9.6 per cent over the year. This has enabled the Company to meet its stated objective of providing an attractive dividend yield together with capital growth.

In the period since the reorganisation in June 2001, the Company's net asset value total return per ordinary unit has increased by 25.4 per cent.

The discount at which the Company's ordinary units trade relative to the net asset value stood at 3.3 per cent at 30 September 2006. Over the year the share price total return per ordinary unit was 9.6 per cent.

Earnings

The Group achieved total revenue income of £17.0 million in the year to 30 September 2006 compared with £15.7 million last year.

Over 46 per cent of portfolio income received was derived from the fixed interest portfolio which at 30 September 2006 was yielding 7.2 per cent. The yield on the equities portfolio was 3.4 per cent at 30 September 2006, equivalent to a yield relative to the FTSE All Share Index of 112 per cent.

Against a background of strong growth in corporate earnings and cash flows, growth in dividends from the UK equities portfolio has been most encouraging. The Company has also benefited from a number of special dividends paid by portfolio companies, which should be regarded as one off in nature.

In view of the Company's planned life to 28 February 2007, subject to the ability of shareholders to approve an extension, the financial statements have required to be prepared on a 'break up' rather than a 'going concern' basis. This has resulted in an accounting provision for liquidation related costs of £350,000 being charged against revenue.

The Company has a policy, as previously intimated, to distribute substantially all of its net income for each year and, if required, to supplement this through the use of revenue reserves. As net income earned was less than dividends for the year, there was a small transfer from revenue reserves. At 30 September 2006 the Company had a revenue reserve position amounting to £2.8 million or 1.1p per income share, after accounting for the fourth quarter dividend.

Dividends

In respect of the year ended 30 September 2006, the Board has declared dividends for the first three quarters at the rate of 1.325p per income share and 1.375p in respect of the fourth quarter, making 5.35p per income share in total.

For ordinary unit holders these dividends, amounting in total to 5.35p per unit, equate to a dividend yield of 6.4 per cent based on an ordinary unit price of 83.75p

at 30 September 2006. This dividend yield compares favourably with the yield of the FTSE All Share Index of 3.0 per cent at the same date.

The Company will pay, subject to market conditions and barring unforeseen circumstances, a dividend in February 2007 at the normal rate of 1.325p per share.

Structure

I would like to remind shareholders of the Company's particular capital structure.

The Company has fixed rate bank borrowings amounting to £105 million. These borrowings contain financial covenants and the Company has complied with these throughout the year. Borrowings at 30 September 2006 of £105 million are covered by the fixed interest portfolio of £108 million which, together with the equities portfolio and cash, make up total assets of £323 million.

The Company has a capital structure comprising three different share classes. Market movements over the year affect the returns and hurdle rates for holders of the individual share classes. The different entitlements, returns and hurdle rates of each share class as well as the ordinary and geared units are set out in the 'Capital Structure' section of this report.

An ordinary unit comprises one each of the three share classes. Ordinary unit holders benefit from an enhanced dividend yield as a result of the fixed interest portfolio which yields more than the interest cost of the borrowings. The Company also supplements the dividend, if required, through the use of its revenue reserve, the effect of which is marginally to reduce capital values.

Future of the Company

The Company has a planned life to 28 February 2007 subject to the ability of shareholders to approve an extension. As I indicated in my last report, the Board

Chairman's Statement

Continued

has been giving consideration to this matter and the interests of shareholders. The Board has previously stated its intention to put appropriate proposals to shareholders with a view to permitting those shareholders that wish to continue with their investment to do so, while also providing an exit opportunity for those shareholders who wish to realise their investment. The Board has considered alternative proposals for the Company's future and intends to offer shareholders the opportunity either to

- continue with their investment in a new investment trust managed by F&C Asset Management plc which has a similar objective to the present Company of providing an attractive dividend yield and capital growth, and/or
- realise their investment for cash

The Board expects to announce full details of the proposals in January 2007

International Financial Reporting Standards ('IFRS')
The financial statements for the year to 30 September 2006 are the first annual results that have been required to be prepared on the basis of the new IFRS, and comparative periods have been restated accordingly. Details of the accounting changes arising are included in the notes to the financial statements. In summary the changes are valuation of investments at bid prices rather than mid prices, no period end provision for dividends proposed but not paid and valuation of the interest rate swap at fair value.

In addition, there is a number of presentational changes. There has been an accounting reclassification of the zero dividend preference shares and the income shares from equity to financial liabilities in the Company's balance sheet, however, this has no effect on the net assets attributable to either of these share classes. A further change is the

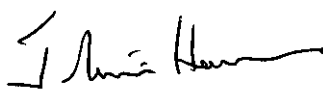
designation of the total column of the Income Statement as the Group's Income Statement

Outlook

Credit markets face a more challenging environment in the year ahead, as the corporate sector moves into a more expansionary phase, re-leveraging balance sheets and increasing capital investment. Against this backdrop we anticipate modest returns in the short term from the fixed interest portfolio. The UK equity market has delivered strong returns for investors since the market low of March 2003. With mergers and acquisitions remaining very much on the investment agenda and the outlook for the global economy stable, we believe equities can make further progress in the year ahead.

Annual General Meeting

The Company's Annual General Meeting will be held on 12 December 2006 at 80 George Street, Edinburgh at 12.30 pm. This meeting provides a forum for shareholders to discuss issues and views with the Directors and Managers of the Company. A short presentation on the Company will be given by the Managers at the meeting.



J Martin Haldane

Chairman

13 November 2006

Investment Managers and Investment Process

Rodger McNair

Investment Manager

Rodger McNair heads the UK investment team in Edinburgh. He has over 19 years investment experience and was appointed lead manager of Investors Capital Trust in June 1999.

Gary Thomson

Investment Manager

Gary Thomson works in the UK investment team in Edinburgh. He has over 8 years investment experience and assists in the management of Investors Capital Trust.

Michael Campbell

Company Secretary

Michael Campbell, a chartered accountant, has been Company Secretary of Investors Capital Trust since 1995.

F&C Asset Management plc

F&C Asset Management plc (F&C) is a leading asset manager in both the UK and Europe with around £106 billion of funds under management. F&C is a company listed on the London Stock Exchange. F&C provides management and other services to a range of investment trust clients.

We favour companies which have the ability to sustain above average growth in earnings and dividends over the longer term, have strong balance sheets and interest cover, are inherently cash generative and have a stable and proven management team.

Investment Process

The investment portfolio of Investors Capital Trust is split into an Equities Portfolio and a Fixed Interest Portfolio.

Our style of management is to make long term strategic investments, however our basic approach does not preclude us from taking a more pragmatic view of the valuation of companies through the business cycle.

Investors Capital Trust has a relatively concentrated portfolio and typically below average portfolio turnover.

Equities Portfolio

The Equities Portfolio is a portfolio of predominantly large capitalisation UK equities selected from the FTSE All Share Index.

Our investment philosophy is based on the knowledge that equity investment is one of the most reliable methods of preserving and growing capital over time.

Fixed Interest Portfolio

Day to day management of the Fixed Interest Portfolio is undertaken by the F&C Asset Management plc specialist fixed interest team. The Fixed Interest Portfolio is invested predominantly in corporate bonds, approximately two thirds of which is expected to be in sterling denominated investment grade UK corporate bonds. A disciplined in house credit analysis approach is adopted including the use of credit scoring models.

Manager's Review

Economic and Market Review

At the time of writing last year's report, evidence of a slowdown in UK economic growth was giving some cause for concern. The combination of high energy prices, interest rate increases and a soft housing market had put considerable pressure on household finances and, consequently, consumer spending. However, the slowdown in economic growth during the first half of the Company's year proved to be less enduring than many commentators feared, in part due to an improvement in the pace of business investment, supported by the strong financial position of the corporate sector. Although consumer spending remained subdued throughout much of the year, an improvement in headline economic growth coupled with signs of rising inflationary pressure resulted in a move by the Monetary Policy Committee (MPC) of the Bank of England to a tighter monetary policy stance. The move to increase base rates by one quarter of a point to 4.75 per cent in August, the only interest rate adjustment during the Company's year, took markets somewhat by surprise. At the time of writing the MPC has announced a further quarter point increase in base rates to 5.0 per cent. It is likely that the MPC will maintain a bias towards policy tightening in coming months as long as inflation remains above target and growth above trend, albeit only modestly. Policymakers will take some encouragement from the recent decline in the price of oil and gas. Crude oil reached a peak of \$79 a barrel in July, its highest ever nominal level, following nervousness over the escalating conflict between Israel and Lebanon and increased tensions over Iran's nuclear ambitions. While the price of crude oil has since retreated to around \$60 a barrel, at the time of writing, it may take some time for the benefit of lower energy prices to be seen in the inflation data.

During the year ended 30 September 2006 the UK equity market made good progress with the FTSE All Share Index returning 14.7 per cent in total return terms. Following a strong start to the year the equity market suffered a sharp correction in May reflecting uncertainty over the outlook for interest rates and inflation and concerns over the prospects for the US economy. That correction proved to be short lived with the upward trend

resuming through the balance of the year. The strong recovery in the UK equity market over the last three years has been supported by better than expected growth in corporate earnings and an increased level of merger and acquisition activity. When set against a background of favourable equity valuations, the combination of strong corporate sector finances and widespread availability of funding at highly competitive rates has resulted in a continued high level of corporate deals.

In our report last year we highlighted that 'This stage of the business cycle tends to be less accommodating for credit markets, hence we expect a year of modest returns from the fixed interest portfolio'. This indeed proved to be the case. Corporate bonds benefited from a continued period of global economic stability and healthy corporate sector profitability. Bond defaults remained at historically low levels providing significant support for credit markets and especially higher yielding non-investment grade issues. However, with yields having started the year at already low levels, corporate bond markets had to adjust to a background of tighter monetary policy by Central Banks around the world. The increased yield available on non-investment grade and lower-rated investment grade bonds was enough to generate higher returns than government securities but overall returns were still significantly lower than previous years.

Portfolio Review

The Company's equities portfolio retains a bias towards companies which have strong balance sheets, generate surplus cash and have ample dividend cover. We believe that a portfolio with these characteristics will provide a greater level of certainty in generating the above average and growing level of income which the Company requires to pay its dividend. It is also the cash flow profile of a business which ultimately determines its value and this approach to stock selection has worked well over the longer term.

Against a background of continued strong growth in corporate earnings and cash flows, underlying dividend growth from the Company's equities portfolio remained

robust, increasing ahead of the 13.7 per cent growth in dividends from the FTSE All Share Index. This was a creditable performance given the weakness of the US Dollar against Sterling during the second half of the Company's year. Around one quarter of the Company's income from equities is declared in US dollars. At below 3.0 per cent, the dividend yield on the UK market is now relatively low when viewed in a historic context. It must be remembered that it is increasingly common for companies to utilise share buybacks to complement dividends in returning cash to investors. The Company also received a high level of one off 'special dividends' during the year mainly as a result of corporate restructuring.

Many commentators have predicted a return to favour for the large capitalisation sectors of the market but this has so far failed to materialise. The persistent outperformance of the mid capitalisation companies in recent years has been helped by the high level of merger and acquisition activity in this area and a notably poor performance from some of the largest companies in the market. Within the major market sectors the UK oil majors, BP and Shell, performed poorly due to rising costs and production difficulties and thus were unable to capitalise fully on the favourable industry pricing background. The equities portfolio has been fully weighted to Resources during the year, but with a bias towards Oil and Gas which offers a premium yield over the Mining sector. The latter continued to gain on the back of buoyant commodity prices. The Bank and Pharmaceutical sectors broadly kept pace with the market, however for Telecoms, in particular, Vodafone, it was a difficult year, with the company's shares suffering a sharp de-rating on the back of pressure on profit margins. Vodafone's share price has recovered significant ground since the Company's year end and the equities portfolio remains overweight. The portfolio positions in BP and Vodafone, and larger companies bias, were the main reasons for the total return of 12.0 per cent for the Company's equities portfolio lagging the broader market. In contrast, the Company benefited from an overweight exposure to the Utilities and the Aerospace and Defence sectors both of which performed well during the year and also from the takeovers of O2, BOC and BAA.

Our strategy in fixed interest remains as described in last year's report. The fixed interest portfolio has short duration, so limiting the sensitivity of the portfolio to the recent increases in interest rates. This is especially so within investment grade which has been positioned with the maturity date of the Company's bank borrowings early next year very much in mind. The portfolio remains well diversified with over 80 holdings, limiting the Company's exposure to individual credit risks. The total return from the Company's fixed interest portfolio in the year to 30 September 2006 was 4.7 per cent.

Outlook

There seems little doubt that the credit cycle is at a turning point. Companies are increasingly looking to leverage their balance sheets and accelerate capital investment with a view to expansion. This is confirmed by the current spate of merger and acquisition activity. This backdrop creates a headwind for bondholders and hence we continue to take a cautious approach to the management of the fixed interest portfolio and expect only modest returns from corporate bonds.

The UK equity market has almost doubled since the lows of 2003, however valuations remain reasonably supportive as market gains have been broadly matched by growth in corporate profits. While we expect earnings and dividend growth to slow in the year ahead, with pressure coming from higher UK interest rates and a slowdown in the US economy, we continue to see areas of opportunity within the UK equity market and anticipate further progress.

Rodger McNair

Investment Manager

F&C Asset Management plc

13 November 2006

Classification of Investments

Total Portfolio Summary

	2006 Market Value £'000	% of Total Assets	% of Total Portfolio Income	% Yield
Equities Portfolio	204,312	63.3	47.1	3.4
Fixed Interest Portfolio	108,277	33.5	52.9	7.2
Net Current Assets (excluding investments and financing)	10,368	3.2	—	
Total Assets (less Current Liabilities excluding financing)	322,957	100.0	100.0	
Fixed Rate Term Loan Facility & Interest Rate Swap	(105,307)	(32.6)		
Net Assets Attributable to Shareholders	217,650	67.4		

Equities Portfolio

Sector	2006 % Equities Portfolio	2005 % Equities Portfolio	2006 FTSE All Share Index weighting %
Oil & Gas	16.7	18.9	15.2
Basic Materials	4.8	4.3	6.8
Industrials	12.7	12.7	6.9
Consumer Goods	7.7	6.5	9.4
Healthcare	8.7	8.9	8.5
Consumer Services	9.7	8.2	12.3
Telecommunications	5.9	10.4	5.3
Utilities	6.7	5.6	4.7
Financials	26.5	23.9	29.9
Technology	0.6	0.6	1.0
Total	100.0	100.0	100.0

Fixed Interest Portfolio

Sector	2006 % Fixed Interest Portfolio
Automotive	10.0
Chemical	2.0
Commercial	1.3
Consumer	19.6
Diversified Manufacturing	4.3
Financial Institutions	32.9
High Tech	1.3
Insurance	0.9
Leisure Time	0.7
Media	4.1
Metal	1.8
Mortgage Backed	0.8
Oil & Gas	2.3
Real Estate	5.5
Recycling	0.2
Telecommunications	5.4
Transportation	4.3
Utilities	2.3
Venture Capital	0.3
Total	100.0

Security Ratings	2006 Fixed Interest Portfolio Weighting %
AAA	5.1
AA	11.0
A	31.8
BBB	25.1
BB	10.6
B	14.0
CCC	2.4
	100.0

Figures at 30 September 2006

Equities Portfolio

Company	2006 Market Value £ 000	2006 % of Equities Portfolio	2005 Market Value {restated} £ 000	2005 % of Equities Portfolio
BP				
BP Amoco is one of the world's largest integrated oil and gas companies	17,125	8.4	19,834	10.2
HSBC Holdings				
HSBC provides a comprehensive range of banking and related financial services on a global basis	14,466	7.1	13,223	6.8
Royal Dutch Shell				
Royal Dutch Shell is one of the world's largest integrated oil and gas companies	13,071	6.4	13,875	7.2
GlaxoSmithKline				
A global manufacturer and marketer of ethical pharmaceutical products	11,509	5.6	11,663	6.0
Vodafone Group				
Vodafone is the largest global provider of mobile telecommunications services	9,402	4.6	14,059	7.3
Royal Bank of Scotland Group				
Royal Bank of Scotland provides a range of banking, insurance and other financial services	8,613	4.2	7,535	3.9
AstraZeneca				
The company is involved in the research, manufacture and sale of pharmaceuticals and agrochemicals	6,015	2.9	5,174	2.7
HBOS				
HBOS plc is a diversified financial services company providing retail services, corporate banking and business banking to the United Kingdom financial markets	5,203	2.6	4,568	2.4
Barclays				
Barclays provides banking and other financial services to both retail and business markets	5,067	2.5	4,307	2.2
Anglo American				
Anglo American plc is a global mining and natural resources company	4,974	2.4	2,829	1.5
Ten largest equity investments	95,445	46.7	97,067	50.2

Equities Portfolio

Continued

Company		2006 Market Value £'000	2006 % of Equities Portfolio
	Sector		
Tesco	Food Retailers	4,938	2.4
Lloyds TSB	Banks	4,355	2.1
Prudential	Life Assurance	3,654	1.8
Centrica	Gas, Water & Multi Utilities	3,461	1.7
Scottish & Southern Energy	Electricity	3,434	1.7
Aviva	Life Insurance	3,416	1.7
Imperial Tobacco	Tobacco	3,203	1.6
Land Securities	Real Estate	2,978	1.4
British American Tobacco	Tobacco	2,915	1.4
Severn Trent	Gas, Water & Multi Utilities	2,783	1.4
Top 20 equity investments		130,582	63.9
BT Group	Fixed Line Telecom	2,679	1.3
BHP Billiton	Mining	2,579	1.3
BAE Systems	Aerospace & Defence	2,562	1.2
Yell Group	Media	2,484	1.2
Rexam	General Industrial	2,467	1.2
SABMiller	Beverages	2,396	1.2
Reed Elsevier	Media	2,343	1.1
Cobham	Aerospace & Defence	2,232	1.1
IMI	Industrial Engineering	2,227	1.1
Bunzl	Support Services	2,191	1.1
Top 30 equity investments		154,742	75.7
BG Group	Oil & Gas Producers	2,149	1.1
Rio Tinto	Mining	2,149	1.1
National Grid	Gas, Water & Multi Utilities	2,106	1.0
Standard Chartered	Banks	2,067	1.0
Carnival	Travel & Leisure	1,975	1.0
Hanson	Construction & Materials	1,930	1.0
Spectris	Electronic Equipment	1,925	0.9
Unilever	Food Producers	1,917	0.9
United Utilities	Gas, Water & Multi Utilities	1,850	0.9
Weir Group	Industrial Engineering	1,842	0.9
Top 40 equity investments		174,652	85.5
Reckitt Benckiser	Household Goods	1,807	0.9
Intercontinental Hotels	Travel & Leisure	1,804	0.9
Carillion	Construction & Materials	1,790	0.9
Slough Estates	Real Estate	1,769	0.9
Enterprise Inns	Travel & Leisure	1,738	0.8
BBA Group	Industrial Transport	1,736	0.8
Diageo	Beverages	1,637	0.8
VT Group	Aerospace & Defence	1,541	0.7
Shaftesbury	Real Estate	1,391	0.7
Tomkins	General Industrial	1,248	0.6
Top 50 equity investments		191,113	93.5
Other equity investments (15)		13,199	6.5
Total equity investments		204,312	100.0

Fixed Interest Portfolio

Company		Market Value £'000	% of Fixed Interest Portfolio
Corporate Bonds	Sector		
GECC 7.25% 06/08/07	Diversified Manufacturing	3,606	3.3
BAA 7.875% 10/02/07	Transportation	2,820	2.6
Tesco 7.5% 30/07/07	Consumer Non Cyclical	2,784	2.6
Societe Generale 9.125% Perp 06	Financial Institutions	2,613	2.4
BT 7.375% 07/12/06	Telecommunications	2,568	2.4
Skandia 9.04% 06 Perpetual	Financial Institutions	2,414	2.2
Marks & Spencer 6.25% 23/01/07	Consumer	2,405	2.2
UBS 8% 08/01/07	Financial Institutions	2,365	2.2
WestLB Finance Curacao 8.125% 24/01/07	Financial Institutions	2,247	2.1
Cattles 8.625% 07/12/07	Financial Institutions	2,230	2.1
Ten largest fixed interest investments		26,052	24.1
Whitbread 8.25% 31/01/07	Consumer	2,165	2.0
EMI 8.25% 20/05/08	Media	2,112	1.9
Commerzbank 7.875% 07/12/07	Financial Institutions	2,102	1.9
Volvo Treasury 5.25% 29/12/06	Automotive	2,098	1.9
Cadbury 5.75% 30/11/06	Consumer	2,041	1.9
Land Securities 5.016% 29/04/07	Real Estate	2,020	1.9
Midland 9.25% 07/12/06	Financial Institutions	2,012	1.9
Co op Bank 7.735% 16/11/11	Financial Institutions	2,004	1.9
Rio Tinto 5.5% 08/12/06	Metal	2,000	1.8
BP Capital Markets 5% 16/03/07	Oil & Gas	1,997	1.8
Twenty largest fixed interest investments		46,603	43.0
BMW US Capital 4.625% 29/11/06	Automotive	1,996	1.8
Dresdner Bank 7.75% 07/12/07	Financial Institutions	1,960	1.8
Associated British Ports 6.625% 07/08/08	Transportation	1,890	1.7
Canandaigua Brand 8.5% 15/11/09	Consumer	1,811	1.7
United Biscuits Finance 10.75% 15/04/11	Consumer	1,791	1.7
Reliance Industries 8.75% 13/08/07	Chemical/Diversified	1,789	1.7
Slough Estates 7.125% 17/02/10	Real Estate	1,787	1.7
Daimler 5.125% 04/02/08	Automotive	1,754	1.6
Electricite de France 5.25% 07/12/07	Utilities	1,697	1.6
Ford Credit 7.25% 07/12/07	Automotive	1,645	1.5
Thirty largest fixed interest investments		64,723	59.8
Merrill Lynch 7.375% 17/12/07	Financial Institutions	1,636	1.5
Bradford & Bingley 8.375% 27/11/06	Financial Institutions	1,610	1.5
RBS FRN Perpetual 5.303% 29/03/49	Financial Institutions	1,602	1.5
Credit Suisse 8.25% 09 Perpetual	Financial Institutions	1,599	1.5
Countrywide 5.875% 15/12/08	Financial Institutions	1,509	1.4
Iron Mountain 7.25% 15/04/14	Commercial Services	1,462	1.3
FCE Bank 5.75% 15/12/06	Automotive	1,436	1.3
Xerox 9.75% 15/01/09	High Tech	1,435	1.3
Wind Acquisition Finance 9.75% 01/12/15	Telecommunications	1,283	1.2
DR Horton 8.5% 15/04/12	Real Estate	1,248	1.2
Forty largest fixed interest investments		79,543	73.5
Other fixed interest investments (41)		28,734	26.5
Total fixed interest investments		108,277	100.0

Long Term Record

At 30 September	Total Assets (less current liabilities) £000	Net Asset Value per Ordinary Share	Ordinary Share Price	Discount	Earnings per Ordinary Share	Dividends per Ordinary Share
1990	233,228	91 3p	85 0p	6 9%	4 95p	4 850p
1991	296,081	116 7p	116 0p	0 6%	5 12p	5 050p
1992	284,060	111 8p	108 0p	3 4%	4 97p	5 100p
1993	353,072	139 7p	139 5p	0 1%	5 32p	5 125p
1994	339,556	134 2p	128 0p	4 6%	5 43p	5 200p

Record Since Year of Capital Reorganisation (1994/1995)

At 30 September	Total Assets (less current liabilities) £000	Net Asset Value per Unit		Package Price	Package Discount to NAV (Basic)	Earnings per Share	Dividends per Income Annuity Share
		Fully Diluted	Basic				
1995	385,582	150 2p	152 8p	143 7p	6 0%	5 75p	5 30p
1996	424,537	165 7p	170 6p	149 5p	12 4%	5 98p	5 40p
1997	539,669	207 0p	217 2p	184 7p	15 0%	6 63p	5 71p
1998	579,686	201 9p	209 3p	172 1p	17 8%	5 91p	5 93p
1999	628,153	220 2p	229 6p	200 5p	12 7%	6 70p	6 10p
2000	664,977	241 5p	253 5p	239 1p	5 7%	6 19p	6 30p

The 1994/1995 capital reorganisation resulted in a holder of ordinary shares receiving a package comprising a growth share, an income annuity share and one fifth of a warrant.

A unit comprises one growth share and one income annuity share.

Record Since Year of Capital Reorganisation (2000/2001)

At 30 September	Total Assets (less current liabilities) £000	Net Asset Value per Ordinary Unit	Ordinary Unit Price	Ordinary Unit Discount/ (Premium)	Earnings per Share	Dividends per Share
2001	317,732	84 7p	79 5p	6 1%	4 37p ¹ 1 34p ²	6 58p ¹ 1 325p ²
2002	265,940	64 0p	55 0p	14 1%	4 91p	5 35p
2003	278,407	69 0p	70 3p	(1 8%)	4 68p	5 35p
2004	290,102	73 7p	67 0p	9 0%	4 56p	5 35p
2005†	318,662	84 2p	81 5p	3 2%	4 92p	5 35p
2006	322,957*	86 6p	83 7p	3 3%	5 31p	5 35p

The 2000/2001 capital reorganisation resulted in a holder of one growth share receiving 2 300373 ordinary units and a holder of one warrant receiving 0 930373 ordinary units, all rounded down to the nearest whole number of ordinary units. An ordinary unit comprises one zero dividend preference share, one income share and one capital share.

¹ Period prior to reorganisation in June 2001 (per income annuity share).

² Period post reorganisation (per income share).

*Current liabilities excludes financing costs falling due within one year.

†2005 figures have been restated under International Financial Reporting Standards.

Capital Structure

At 30 September 2006

The Company has a capital structure comprising zero dividend preference shares, income shares and capital shares

These three securities can be traded together in the form of an ordinary unit which has similar characteristics to a conventional ordinary share. In addition, the income shares and the capital shares can be traded together in the form of a geared unit. By splitting the Company's share capital in this fashion it broadens the number of potential investors in the Company by offering securities with different return characteristics. At the same time it provides for investors who simply wish to hold an ordinary unit which has a similar economic interest to a conventional ordinary share.

The Company also has a fixed rate term loan bank facility amounting to £105 million.

A description of key characteristics of the individual securities and units in the Company follows. The Company has a planned life to 28 February 2007, subject to the ability of shareholders to approve an extension. The investment characteristics set out should be read in the light of this planned life.

Ordinary Units

Ordinary units consist of one zero dividend preference share, one income share and one capital share.

Investment Characteristics

Ordinary units have similar characteristics to a conventional ordinary share. In relation to ordinary units the Company's objective will be to provide an attractive dividend yield together with capital growth.

Income Entitlement

The income share component of the ordinary unit provides its income entitlement and is set out under the 'Income Shares' heading. Dividends are paid quarterly to holders of ordinary units.

Capital Entitlement

The capital entitlement of ordinary units is made up of the separate capital entitlements of the zero dividend preference shares, income shares and capital shares. Ordinary unitholders will be entitled, on a winding up of the Company, to their pro rata share of the Company's assets remaining after the satisfaction of its liabilities including those under the term loan bank facility.

Voting Entitlement

Ordinary unitholders are entitled to vote at general meetings of the Company and at separate class meetings.

	2006	2005
Ordinary unit price	83.7p	81.5p
Ordinary unit net asset value	86.6p	84.2p
Discount to net asset value	3.3%	3.2%
Annual dividends per ordinary unit*	5.35p	5.35p
Net Dividend yield*	6.4%	6.6%

*based on 2005/2006 dividends
figures as at 30 September

Capital Structure

Continued

Zero Dividend Preference Shares ('ZDPs')

At 30 September 2006 there were 251,282,051 zero dividend preference shares in issue

Investment Characteristics

The zero dividend preference shares provide a predetermined level of capital growth, but no entitlement to income, for a set period of time to 28 February 2007. Since the zero dividend preference shares have a predetermined capital entitlement and a preference on winding up, they are considered to have a lower degree of risk than ordinary units. Holders of zero dividend preference shares will receive the final capital entitlement of 52.45p per share, so long as there is sufficient capital in the Company.

Income Entitlement

The zero dividend preference shares have no entitlement to income.

Capital Entitlement

The initial capital entitlement of the zero dividend preference shares of 33p per share will be increased at a daily compound rate so as to provide, subject to there being sufficient capital in the Company, the final capital entitlement of 52.45p per share on 28 February 2007. This entitlement will rank behind the Company's liabilities but ahead of the capital entitlements of both the income and capital shareholders.

Voting Entitlement

The zero dividend preference shares will not generally carry voting rights. However, the separate approval of zero dividend preference shares as a class will be required for certain proposals which would be likely to affect their position.

	2006	2005
ZDP share price	50.8p	47.8p
ZDP capital entitlement	50.7p	46.7p
Asset cover of final value of ZDP's and prior ranking liabilities	1.34 times	1.27 times
Hurdle rate to repay 52.45p per share†	-76.7% p.a.	-24.4% p.a.

†The rate of increase/decline in equity assets each year if there is to be sufficient assets remaining to repay the 52.45p final capital entitlement figures at 30 September.

Income Shares

At 30 September 2006 there were 251,282,051 income shares in issue

Investment Characteristics

The income shares are designed to offer a high initial net dividend yield. The net annualised dividend yield for the year to 30 September 2006 is 15.9 per cent based on the income share price of 33.75p at 30 September 2006.

Income Entitlement

Income shareholders are entitled to receive dividends declared by the Company. Dividends are paid quarterly in February, May, August and November each year. The Company intends to distribute its net income for the year and to supplement this through the use of revenue reserves, as required.

Capital Entitlement

Income shares were issued at 54p per share and are entitled, subject to there being sufficient capital in the Company, to be repaid this issue price at 28 February 2007. This entitlement ranks after the Company's liabilities and the capital entitlement of the zero dividend preference shares.

Voting Entitlement

The income shares will not generally carry voting rights. However, the separate approval of income shareholders as a class will be required for certain proposals which would be likely to affect their position.

	2006	2005
Income Share price	33 8p	34 3p
Income Share capital entitlement	35 9p	37 5p
Discount	5 8%	8 5%
Annual dividends*	5 35p	5 35p
Net Dividend yield*	15 8%	15 6%
Hurdle rate to repay 54p per share†	109 4% p a	26 4% p a

†The rate of growth in equity assets each year if there is to be sufficient assets remaining to repay the 54p per income share

*based on 2005/2006 dividends
figures at 30 September

Capital Shares

At 30 September 2006 there were 251,282,051 capital shares in issue

Investment Characteristics

Capital shares offer the potential for highly geared capital growth and should therefore be considered higher risk

Income Entitlement

Capital shares have no entitlement to income

Capital Entitlement

Capital shareholders are entitled to all the growth in the Company's net assets over the life of the Company after meeting in full the Company's liabilities and the final capital entitlements of the zero dividend preference shares and the income shares

Voting Entitlement

Capital shareholders are entitled to vote at general meetings

	2006	2005
Capital Share price	0 09p	0 25p
Capital Share capital entitlement	0p	0p
Discount	—	—
Hurdle rate to repay share price of 0 09p (2005 – 0 25p)†	105 5% p a	26 5% p a

†The rate of growth in equity assets each year if there is to be sufficient assets remaining to repay the 0 09p (2005 – 0 25p) capital share price

figures at 30 September

Geared Units

Geared units consist of one income share and one capital share

Investment Characteristics

Geared units are entitled to dividends, and to capital after the Company's liabilities and the capital entitlements of the zero dividend preference shares have been met. Accordingly the geared units provide geared returns and carry a greater degree of risk than ordinary units

Income and capital entitlements

Holders of geared units will be entitled to dividends and capital on the income shares component in accordance with the 'Income Shares' section above and to capital on the capital shares component in accordance with the 'Capital Shares' section above

Voting Entitlement

Geared units have the same voting rights as their income and capital share components

	2006	2005
Geared unit price	33 8p	34 3p
Geared unit capital entitlement	35 9p	37 5p
Discount	5 8%	8 5%
Annual dividends per geared unit*	5 35p	5 35p
Net Dividend yield*	15 8%	15 6%

based on 2005/2006 dividends
figures at 30 September

Bank Loan Facility

The Company has a sterling term loan bank facility in the amount of £105m. The rate of interest has been fixed at 6.49 per cent per annum through an interest rate swap. The capital and income returns of the ordinary units are geared by this bank loan facility

Hurdle rates and cover ratios are provided by Fundamental Data

Board of Directors

Martin Haldane

Chairman

age 65, was appointed in 1995 and was previously senior partner of Chiene & Tait, C.A. He is chairman of Shires Income plc and a non executive director of other companies. He was deputy chairman of Scottish Life Assurance Company.

Michael Ingall

age 65, was appointed in 1999 and was chairman of Rathbone Brothers plc. He is chairman of India Capital Growth Fund Limited and a director of Edinburgh Smaller Companies Trust plc and Mid Wynd International Investment Trust plc.

Herschel Post

(Senior Independent Director)

age 67, was appointed in 1999 and recently retired as International Managing Director Business Development of Christie's International plc and as Deputy Chairman of EFG Private Bank Limited. He is a director of Ahli United Bank (UK) plc, CRESTCO Ltd, Threadneedle Asset Management Ltd and Euroclear plc. He was formerly chief executive officer and deputy chairman of Coutts & Co UK.

Kenneth Shand

age 46, was appointed a Director in November 2003. He is a partner and Head of the Corporate Department of MacLay Murray & Spens LLP, Solicitors. His practice focuses on corporate finance and mergers and acquisitions.

John Sherriff

age 70, was appointed in 1995, is a chartered accountant, and was investment director of Lincoln National (UK).

Report of the Directors

Results and Dividends

The Directors submit the One Hundred and Fourteenth Annual Report and Accounts of the Company and of the Group for the year ended 30 September 2006

	Company £'000	Group £'000
Revenue available for dividends	13,345	13,338
Dividends on Income Shares		
First quarter's dividend of 1 325p per share paid on 3 February 2006	(3,329)	(3,329)
Second quarter's dividend of 1 325p per share paid on 5 May 2006	(3,330)	(3,330)
Third quarter's dividend of 1 325p per share paid on 4 August 2006	(3,330)	(3,330)
Fourth quarter's dividend of 1 375p per share paid on 3 November 2006 to income shareholders on the register at close of business on 6 October 2006	(3,455)	(3,455)
Transferred from revenue reserve	(99)	(106)

Principal Activity and Status

The Company is registered as a Public Limited Company in terms of the Companies Act 1985. The Company is an investment company under section 266 of the Companies Act 1985.

The Company carries on business as an investment trust. It was approved by the Inland Revenue as an authorised investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the year ended 30 September 2005. In the opinion of the Directors the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval.

A review of the Group's business during the year is contained in the Chairman's Statement and Manager's Review. The Company has a planned life to 28 February 2007, subject to the ability of shareholders to approve an extension. For further details on the future of the Company please refer to the Chairman's Statement.

Investment Policy

As required by the Listing Rules, the Company has stated that it has a policy to invest no more than 15 per cent of gross assets in other listed investment companies.

Subsidiary Company

The Company has a 100 per cent interest in Investors Securities Company Limited, a company which deals in investments. In the year to 30 September 2006, Investors Securities Company Limited made a profit before taxation of £7,000 (30 September 2005: £49,000).

Directors

As explained in more detail in the Corporate Governance section of this report, the Board has agreed that Directors who have served on the Board for more than nine years will retire annually. Accordingly, Mr J M Haldane and Mr J B Sherriff will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. Mr Sherriff attained the age of 70 prior to the Annual General Meeting and special notice of a resolution to propose his re-appointment has been received.

Mr K D Shand will retire by rotation at the Annual General Meeting and, being eligible, offers himself for re-election. In the opinion of the Board, it is in the interests of shareholders that those Directors offering themselves for re-election should be re-appointed.

Report of the Directors

Continued

The Directors who held office and their interests in the shares and other securities of the Company at 30 September 2006 were

		30 September 2006	Ordinary Units 30 September 2005
J M Haldane	Beneficial	18,647	18,647
M L Ingall	Beneficial	66,007	66,007
H Post	Beneficial	8,566	8,566
K D Shand	—	nil	nil
J B Sherriff	Beneficial	2,300	2,300

The office of Director does not require a shareholding

There have been no changes in the holdings of the Directors between 30 September 2006 and 13 November 2006

No Director has any material interest in any contract to which the Company is a party. No Director has a contract of service with the Company.

Substantial Interests in Share Capital

At 13 November 2006 the following holdings representing more than 3 per cent of the Company's issued relevant share capital pursuant to the Companies Act 1985 had been reported

	Number held	Percentage held
Friends Provident Group (including relevant holdings in retail products)	36,021,197	14.3
D C Thomson & Company Limited	23,900,358	9.5

Management and Management Fees

Details of the contract between the Company and F&C Asset Management plc in respect of management services provided are given in Note 4 to the accounts.

Since the end of the year, the Remuneration Committee has reviewed the appropriateness of the Manager's appointment. In carrying out its review the Committee considered the past investment performance of the Company and the ability of the Managers to produce satisfactory investment performance in the future. It also considered the length of the notice period of the investment management contract and fees payable to the Managers, together with the standard of other services provided which include company secretarial, accounting and marketing services. Following this review, it is the Directors' opinion that the continuing appointment of the Managers on the terms agreed is in the interests of shareholders as a whole.

Corporate Governance

Arrangements in respect of corporate governance have been put in place by the Board, which it believes are appropriate to an investment trust. The Company complied throughout the year with the provisions of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ('the Code'). The Board has also taken into account the recommendations of the AIC Code of Corporate Governance ('the AIC Code') which was also issued in July 2003 and revised in February 2006. Since all the Directors are non-executive, the Company is not required to comply with the provisions of the revised Code in respect of Directors' remuneration, except in so far as they relate specifically to non-executive Directors.

Under the requirements of the Articles of Association, one third of all Directors retire by rotation at each Annual General Meeting and Directors are appointed for a specified term of no more than three years as recommended by the Code, subject to reappointment by shareholders. Full details of the duties of Directors are provided at the time of appointment.

The Board consists solely of non executive Directors. Mr J M Haldane is Chairman and Mr H Post is the Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager. New Directors receive an induction from the Manager on joining the Board, and all Directors are made aware of appropriate training courses.

Mr Haldane and Mr Sherriff have served on the Board for more than nine years and, as recommended by the Code, will seek re-election annually. The Board believes that longer serving Directors should not be prevented from forming part of an independent majority, which is consistent with the view expressed within the AIC Code. The Board does not consider that a Director's tenure necessarily reduces his ability to act independently and, following formal performance evaluations, believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director. The Board believes that continuity and experience add significantly to the strength of the Board and therefore no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed.

The Company has no executive Directors or employees. A management agreement between the Company and its Manager, F&C Asset Management plc, sets out the matters over which the Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board currently meets at least six times a year and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted where practicable in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance.

Throughout the year a number of committees has been in operation. The committees are the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of the Committees comprises the full Board and is chaired by Mr Haldane. Terms of reference for these Committees are available on request.

The Audit Committee operates within clearly defined terms of reference. The Board has concluded that Mr Haldane, given his significant previous experience in the accounting profession, is best suited to the role of the chairman of the Audit Committee. The duties of the Audit Committee include reviewing the Financial Statements, the system of internal controls, and the terms of appointment of the auditors together with their remuneration. The objectivity of the auditors is reviewed by the Audit Committee which also reviews the terms under which the external auditors are appointed to perform non-audit services. It also provides a forum through which the auditors may report to the Board of Directors and meets at least twice a year. The Audit Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors, with particular regard to non-audit fees. Such non-audit fees amounted to £22,000 for the year ended 30 September 2006 (2005: £7,000) and related to the provision of a review of the interim financial information, a special purpose audit regarding the conversion to International Financial Reporting Standards and taxation services. Notwithstanding such services the Audit Committee considers Ernst & Young LLP to be independent of the Company as the non-audit fees are immaterial.

The Remuneration Committee reviews the appropriateness of the Manager's continuing appointment together with the terms and conditions thereof on a regular basis.

The Nomination Committee is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

Report of the Directors

Continued

During the year the performance of the Board and Committees was evaluated through a formal assessment process, led by the Chairman. The performance of the Chairman was evaluated by the other Directors under the leadership of the Senior Independent Director.

The following table sets out the number of Board and Committee meetings held during the year ended 30 September 2006 and the number of meetings attended by each Director.

	Board of Directors Held	Board of Directors Attended	Audit Committee Held	Audit Committee Attended	Remuneration Committee Held	Remuneration Committee Attended	Nomination Committee Held	Nomination Committee Attended
J M Haldane (Chairman)	6	6	2	2	1	1	1	1
M L Ingall	6	5	2	2	1	1	1	1
H Post	6	6	2	2	1	1	1	1
K D Shand	6	6	2	2	1	1	1	1
J B Sherriff	6	6	2	2	1	1	1	1

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance.

As referred to in the Chairman's Statement, the Company has a planned life to 28 February 2007, subject to the ability of shareholders to approve an extension. The Board is giving consideration to this matter and the interests of shareholders ahead of this date. Meantime the Company will continue to be managed as it is at present. Given the planned life of the Company is less than twelve months from the date of this report, the Directors consider that it is no longer appropriate to continue to adopt the going concern basis in preparing these financial statements. Accordingly, these financial statements have been prepared on a break up basis.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. The process is based principally on the Manager's existing risk based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Managers and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The Board is provided with reports highlighting all material changes to the risk ratings and confirming the action, which has been, or is being, taken. A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of FRAG 21 and similar reports issued by the Managers and other service providers.

Such procedures have been in place throughout the full financial year and up to the date of approval of the accounts and the Board is satisfied with their effectiveness. By their nature these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to its objective at each Board meeting. The Board also reviews the Company's activities since the last Board meeting to ensure that the Managers adhere to the agreed investment policy and approved investment guidelines and, if necessary, approve changes to such policy and guidelines. The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Managers, including their internal audit function and the work carried out by the Company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Environment

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Manager holds meetings with the Company's largest shareholders and reports back to the Board on these meetings. The Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Managers of the Company. The Managers will give a short presentation on the Company at the Annual General Meeting in December 2006.

Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms. The Company did not have any trade creditors at the year end.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put to the forthcoming Annual General Meeting.

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank debt, interest rate swap, foreign exchange currency contracts, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in Note 20.

Statement of Disclosure of Information to Auditors

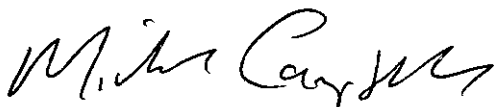
As far as the Directors are aware, there is no relevant audit information (as defined by section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Individual Savings Accounts and Personal Equity Plans

The Company's shares are qualifying investments as defined by the Inland Revenue regulations for Personal Equity Plans and Individual Savings Accounts. It is the current intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

By Order of the Board,

M A Campbell
Secretary



80 George Street
Edinburgh EH2 3BU
13 November 2006

Business Review

Introduction

The review which follows is designed to provide shareholders with an insight into the operations of the Company. In particular, it provides information about

- the environment within which the Company operates,
- the Board's strategy for achieving its stated objectives,
- principal risks and risk management, and
- shareholders' returns measured against key performance indicators

The Company has a planned life to 28 February 2007, subject to the ability of shareholders to approve an extension. Further details on the future of the Company are contained in the Chairman's Statement.

Regulatory and Competitive Environment

The Company is an investment trust quoted on the London Stock Exchange and is a member of the Association of Investment Companies ('AIC').

It is a closed ended company and is obliged to comply with the Companies Acts, the rules of the UK Listing Authority, International Financial Reporting Standards and its own Articles of Association. In addition to publishing annual and interim accounts the Company announces net asset values per share daily via the London Stock Exchange's Regulatory News Service and provides more detailed statistical information on a monthly basis to the AIC in order for investors and brokers to review its performance.

The Company also operates so as to comply with Section 842 of the Income and Corporation Taxes Act 1988 which allows it to be exempted from capital gains tax on investment gains.

In addition to receiving the Annual and Interim Report, shareholders can attend the Annual General Meeting at which relevant matters are voted on.

The Board of Directors is responsible for the overall stewardship of the Company, including overall investment policy, corporate strategy, corporate governance, and risk and controls assessment. Biographical details of the Directors, all of whom are non-executive, can be found on the page entitled 'Board of Directors'.

Strategy for Achieving Objectives

The Company's investment objective is to provide holders of ordinary units with an attractive dividend yield and with capital growth through investment in UK equities and predominantly UK fixed interest securities. Within this overall investment objective, the Company aims to provide attractive returns on each class of share.

As part of its strategy, the Board has contractually delegated the management of the investment portfolio, and other services, to F&C Asset Management plc.

The Company's performance in meeting its objectives is measured against key performance indicators ('KPIs') as set out on the final page of this review. In view of the Company's capital structure, higher yield objective and investment portfolio composition, the overall performance of the Company is not benchmarked against an index.

The Chairman's Statement and Manager's Review within this Report provide a review of investment performance, investment portfolio and market conditions during the year. The investment process is described in more detail on the page within this report entitled 'Investment Managers and Investment Process'.

Principal Risks and Risk Management

The Company's assets consist mainly of listed equity and fixed interest securities and its principal risks are therefore market related. Other risks include the following:

- External investor risks – any events or developments which can affect the general level of share prices including, for instance, terrorism, disease, protectionism, inflation or deflation, economic recessions and movements in interest rates
- Investment and strategic – inappropriate strategy, asset allocation, borrowing policy, diversification and stock selection could all lead to poor returns for shareholders
- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. Breach of Section 842 of the Income and Corporation Taxes Act 1988 could lead to the Company being subject to capital gains tax.

- Operational – failure of the Manager's accounting systems or disruption to the Manager's business, or that of other third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence
- Financial – inadequate controls could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations

The Board seeks to mitigate and manage these risks by continually monitoring the investment environment, the management of the Company's investment portfolio, and applying the principles detailed in the guidance provided by the Turnbull Committee. Details of the Company's internal controls are described in more detail in the Report of the Directors. Further explanation of certain risks is provided in notes 21 to 24 of the financial statements.

Performance

The Board believes that the period since the reorganisation in June 2001 is a suitable time period over which to assess performance and uses the following KPIs to measure the Company's performance in meeting its objectives:

- Dividend yield of Ordinary Units relative to yield of FTSE All Share Index
- Share Price and Net Asset Value Total Return
- Total Return of the equities portfolio against the FTSE All Share Index
- Discount of ordinary unit share price to net asset value
- Total expenses as a ratio of shareholders' funds

These KPIs are summarised in the tables below and in the pages entitled 'Long Term Record' and 'Performance Summary' within this Report and additional investment and performance characteristics for each share class are contained within the 'Capital Structure' section of this Report.

Dividend Yield per Ordinary Unit (as at 30 September)

	2006	2005	2004	2003	2002
Investors Capital Trust Dividend Yield	6.4%	6.6%	8.0%	7.6%	9.7%
FTSE All Share Index Yield	3.1%	3.0%	3.2%	3.4%	3.7%

Share Price and Net Asset Value Total Return

	1 Year Return	3 Years Return	5 Years Return	Return Since 2001 Reorganisation
Share Price	9.6%	48.5%	55.9%	24.4%
Net Asset Value	9.6%	51.6%	42.9%	25.4%

Equities Portfolio Total Return

	1 Year Return	3 Years Return	Return Since 2001 Reorganisation
Equities Portfolio	12.0%	63.5%	30.0%
FTSE All Share Index	14.7%	65.7%	31.0%

By Order of the Board,

M A Campbell

Secretary

80 George Street

Edinburgh EH2 3BU

13 November 2006



Directors' Remuneration Report

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in the 'Independent Auditors' Report'.

Directors' Fees and Remuneration Committee

The Board consists solely of independent non executive Directors and considers at least annually the level of the Board's fees, in accordance with the Combined Code on Corporate Governance. The Company Secretary, Michael Campbell, provides information on comparative levels of Directors' fees to the Board in advance of each review. The Board concluded following the review of the level of Directors' fees for the forthcoming year that the amounts should be increased by £1,500 for the Chairman and £1,000 for other Directors.

The Remuneration Committee is J M Haldane, M L Ingall, H Post, K D Shand and J B Sherriff. As the Company has no Executive Directors, the Remuneration Committee meets, at least annually, to review the remuneration and terms of appointment of the Investment Manager.

Policy on Directors' Fees

The Board's policy is that the remuneration of non executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant investment trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs.

The fees for the non executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £100,000 per annum in total and the approval of shareholders in a general meeting would be required to change this limit. Non executive Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.

Directors' Service Contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

Director	Date of Original Appointment	Due date for Re election
J M Haldane	12/04/1995	AGM 2006
M L Ingall	10/11/1999	AGM 2007 ⁽¹⁾
H Post	10/11/1999	AGM 2007 ⁽¹⁾
K D Shand	04/11/2003	AGM 2006
J B Sherriff	12/04/1995	AGM 2006

⁽¹⁾The Company has a planned life to 28 February 2007, subject to the ability of shareholders to approve an extension.

The terms of Directors' appointments provide that Directors should retire and be subject to re election at the first Annual General Meeting after their appointment and Directors are thereafter obliged to retire by rotation, and to offer themselves for re election by shareholders at least every three years after that. These requirements for retirement of Directors are also contained in the Company's Articles of Association. Directors having served on the Board for more than nine years will retire annually. There is no notice period and no provision for compensation upon early termination of appointment.

Company Performance


The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the 'Report of the Directors'. The graph below compares for the five financial years ending 30 September 2006, the total return (assuming all dividends are reinvested) to ordinary unitholders compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All Share Index is calculated. This index was chosen for comparison purposes, as it represents a comparable broad equity market index, however, it should be noted that more than 30 per cent of the Company's assets are in fixed interest securities. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Share Price Total Return and The FTSE All-Share Index Performance Graph

Directors' Emoluments for the Year (audited)

The Directors who served in the year received the following emoluments in the form of fees

	Fees 2006 £	Fees 2005 £
J M Haldane (appointed Chairman 14/12/04)	22,500	19,488
M L Ingall	15,000	14,000
H Post	15,000	14,000
K D Shand	15,000	14,000
J B Sherriff	15,000	14,000
Total	82,500	75,488

On behalf of the Board


J Martin Haldane

Director

13 November 2006

Consolidated Income Statement

For the year ended 30 September 2006

	Notes	Revenue Return 2006 £'000	Capital Return 2006 £'000	Total Return 2006 £'000	Revenue Return (restated) 2005 £'000	Capital Return (restated) 2005 £'000	Total Return (restated) 2005 £'000
Capital gains on investments							
Gains on investments held at fair value	11	–	9,903	9,903	–	32,360	32,360
Exchange differences		–	727	727	–	433	433
Revenue							
Investment income	2	17,021	685	17,706	15,677	659	16,336
Total income		17,021	11,315	28,336	15,677	33,452	49,129
Expenditure							
Investment management fee	4	(900)	(2,100)	(3,000)	(867)	(2,023)	(2,890)
Other expenses	5	(389)	(45)	(434)	(406)	(128)	(534)
Estimated liquidation costs		(350)	–	(350)	–	–	–
Total expenditure		(1,639)	(2,145)	(3,784)	(1,273)	(2,151)	(3,424)
Profit before finance costs and tax		15,382	9,170	24,552	14,404	31,301	45,705
Finance costs	7	(15,488)	(14,752)	(30,240)	(15,493)	(13,982)	(29,475)
(Loss)/profit before tax		(106)	(5,582)	(5,688)	(1,089)	17,319	16,230
Tax on ordinary activities	8	–	–	–	–	–	–
(Loss)/profit for the year		(106)	(5,582)	(5,688)	(1,089)	17,319	16,230
Earnings per capital share – basic and diluted	10	(0.1p)	(2.2p)	(2.3p)	(0.4p)	6.9p	6.5p
Earnings per ordinary unit – basic and diluted	10	5.3p	1.8p	7.1p	4.9p	10.6p	15.5p

* The total column of this statement represents the Group's Income Statement prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations.

The accompanying notes are an integral part of this statement.

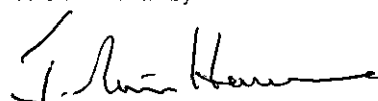
No operations were acquired or discontinued in the year.

Balance Sheets

As at 30 September 2006

	Notes	Company		Group	
		2006 £'000	2005 (restated) £'000	2006 £'000	2005 (restated) £'000
Non current assets					
Investments held at fair value through profit or loss	11	—	308,850	—	308,595
Current assets					
Investments held at fair value through profit or loss	11	312,589	—	312,339	—
Other receivables	13	5,530	5,915	5,530	5,515
Cash and cash equivalents	14	6,288	6,873	6,288	7,530
		324,407	12,788	324,157	13,045
Total assets		324,407	321,638	324,157	321,640
Current liabilities					
Other payables	15	(1,450)	(2,976)	(1,200)	(2,978)
Bank loan	16	(105,000)	—	(105,000)	—
Interest rate swap	16	(307)	—	(307)	—
		(106,757)	(2,976)	(106,507)	(2,978)
Non current liabilities					
Bank loan	16	—	(105,000)	—	(105,000)
Interest rate swap	16	—	(2,006)	—	(2,006)
		—	(107,006)	—	(107,006)
Total liabilities		(106,757)	(109,982)	(106,507)	(109,984)
Net asset value attributable to shareholders	17	217,650	211,656	217,650	211,656
Net asset value attributable to shareholders can be analysed between share classes as follows					
Zero dividend preference shares	17	127,420	117,437	127,420	117,437
Income shares		90,230	94,219	90,230	94,219
		217,650	211,656	217,650	211,656
Net asset value per capital share	19	0 0p	0 0p	0 0p	0 0p
Net asset value per income share	19	35 9p	37 5p	35 9p	37 5p
Net asset value per zero dividend preference share	19	50 7p	46 7p	50 7p	46 7p
Net asset value per ordinary unit		86 6p	84 2p	86 6p	84 2p

Approved by the Board and authorised for issue on 13 November 2006 and signed on its behalf by



J Martin Haldane, Director

The accompanying notes are an integral part of this statement

Consolidated Cash Flow Statement

For the year ended 30 September 2006

	2006	2005
Notes	£'000	(Restated) £'000
Cash flows from operating activities		
Profit before tax and financing	24,552	45,705
Adjustment for gains on investments	(9,903)	(32,360)
exchange differences	(727)	(433)
Operating cash flows before investments in working capital	13,922	12,912
Increase in receivables	(498)	(241)
Increase in payables	274	140
Net cash from operating activities before income taxes	13,698	12,811
Income taxes paid	—	—
Net cash from operating activities	13,698	12,811
Cash flows from investing activities		
Purchases of investments	(53,977)	(49,411)
Sales of investments	58,545	62,371
Net cash from investing activities	4,568	12,960
Cash flows from financing activities		
Dividends paid on income shares	(13,444)	(13,444)
Interest paid	(6,813)	(6,831)
Net cash used in financing activities	(20,257)	(20,275)
Net (decrease)/ increase in cash and cash equivalents	(1,991)	5,496
Currency gains/(losses)	749	(259)
Cash and cash equivalents at beginning of year	7,530	2,293
Cash and cash equivalents at end of year	6,288	7,530

The accompanying notes are an integral part of this statement

Notes to the Accounts

1 Accounting policies

A summary of the principal accounting policies is set out below

Basis of accounting

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, and to the extent that they have been adopted by the European Union. The disclosures required by IFRS 1 *First time Adoption of International Financial Reporting Standards* ("IFRS 1") concerning the transition from UK GAAP to IFRSs are given in note 25

Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in December 2005 is consistent with the requirements of IFRS the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP

Given that the Company has a planned life to 28 February 2007 the Directors do not consider the going concern basis to be appropriate. These financial statements have therefore been prepared on a break up basis. Under this basis, assets and liabilities are stated at their residual values which materially equate to their fair values

The financial statements are presented in pounds sterling and are rounded to the nearest thousand except where otherwise indicated

Group accounts

The Group Accounts consolidate the accounts of the Company and its wholly owned subsidiary, Investors Securities Company Limited. The Company has taken advantage of the exemption permitted by Section 230(4) of the Companies Act 1985 not to present its own income statement. Subsidiaries are consolidated from the date of acquisition, being the date from which control is transferred to the Group, and cease to be consolidated from the date on which control is transferred out of the Group

Presentation of income statement

In order to reflect better the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985, net capital profits may not be distributed by way of dividend. Additionally, the net revenue is the measure the Directors believe appropriate in assessing the Group's compliance with certain requirements set out in Section 842 Income and Corporation Taxes Act 1988

Investments

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value

Investments are classified as fair value through profit or loss. As the entity's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated as fair value through profit or loss on initial recognition

Financial assets designated as at fair value through profit or loss are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Unlisted investments are valued at fair value by the Directors on the basis of all information available to them at the time of valuation

Where securities are designated upon initial recognition as fair value through profit or loss, gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item

Current assets – Investments

Listed investments held by Investors Securities Company Limited, the Company's dealing subsidiary, are valued at fair value through profit or loss. Gains and losses on the disposal of investments realised by the dealing subsidiary together with unrealised losses are applied to the revenue of the Group in the period in which they arise. Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned

Other receivables

Other receivables do not carry any interest and are short term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Cash and cash equivalents

Cash in banks and short term deposits that are held to maturity are carried at cost. Cash and cash equivalents consist of cash in hand and short term deposits in banks with an original maturity of three months or less

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. If the Group has issued compound financial instruments that contain both a liability and equity component, the Group separately recognises these components as a financial liability or equity. Financial liabilities and equity instruments are recorded at the proceeds received, net of issue costs

Zero dividend preference shares

The zero dividend preference shares, due to redeem in 2007 at a redemption value of 52.45p per share, subject to there being sufficient funds available, have been classified as liabilities, as they represent a contractual obligation on behalf of the Group to deliver to their holders a fixed and determinable amount at the redemption date, and therefore meet the IAS 32 Financial Instruments: Disclosure and Presentation ("IAS 32") definition of liabilities. They are accordingly accounted for at amortised cost, using the effective interest rate method

Income shares

The income shares, due to redeem in 2007 at a redemption value of 54.0p per share, subject to there being sufficient funds available, have been classified as liabilities, as they represent a contractual obligation on behalf of the Group to deliver to their holders a fixed and determinable amount at the redemption date, and therefore meet the IAS 32 Financial Instruments: Disclosure and Presentation ("IAS 32") definition of liabilities. They are accounted for at net asset value depending on available net assets

Notes to the Accounts

Continued

1 Accounting policies (continued)

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance charges including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. The amount in equity is released to income when the forecast transaction impacts profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise. If incurred in connection with the maintenance or enhancement of the value of the Company's investment portfolio, the associated change in value is presented as a capital item in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity for cash flow hedges is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss in the period.

Derivatives embedded in other financial instruments or non-financial host contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contracts and the financial instrument is not classified at fair value through profit or loss.

Other payables

Other payables are not interest bearing and are stated at their nominal value.

Capital reserves

- (a) Capital reserve realised – Company and Group – gains and losses on realisation of investments and own securities purchased for cancellation are dealt with in this reserve together with the proportion of management fees, interest and certain other expenses allocated to capital. This reserve also includes special dividends of a capital nature.
- (b) Capital reserve unrealised – Company and Group – increases and decreases in the valuation of investments and interest rate swaps held are accounted for in this reserve.

Income

Dividends are recognised as income on the date that the related investments are marked ex dividend.

Dividends receivable on equity shares where no ex dividend date is quoted are brought into account when the Company's right to receive payment is established.

Interest income from fixed interest securities is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Other investment income and deposit interest are included on an accruals basis.

Special dividends of a non-capital nature are recognised through the revenue column of the income statement. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

As in previous years, the Company allocates tax relief on expenses and financing costs charged to capital on the basis of the Company's actual rate of tax. This treatment is permitted under the grandfathering provisions contained within the Statement of Recommended Practice 2005, as a change to the method of allocation would affect the financial benefits or rights attaching to different classes of share.

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Investment trusts which have approval under Section 842 Income and Corporation Taxes Act 1988 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

1 Accounting policies (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Expenses and interest

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the income statement except where incurred in connection with the maintenance or enhancement of the value of the Company's investment portfolio and taking account of the expected long term returns as follows:

- Interest payable on the bank term loan is allocated 30 per cent to revenue and 70 per cent to capital
- Management fees and certain other expenses payable have been allocated 30 per cent to revenue and 70 per cent to capital

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in either the capital or revenue column of the income statement depending on whether the gain or loss is of a capital or revenue nature respectively.

Rates of exchange

	30 September 2006	30 September 2005
Euro	1 4746	1 4674
US Dollar	1 8680	1 7691

2 Income

	2006 £'000	2005 £'000
Income from investments		
UK dividend income	9,393	7,687
UK listed fixed interest	3,740	4,111
Overseas listed fixed interest	4,338	4,206
	17,471	16,004
Other income		
Deposit interest	233	312
Gains from dealing activities of group undertakings	–	20
Sundry	2	–
	17,706	16,336
Total income		
	17,706	16,336
Total income comprises		
Dividends	9,393	7,687
Interest on fixed interest securities	8,078	8,317
Deposit income	233	312
Other income	2	20
	17,706	16,336
Income from investments		
Listed	17,471	16,004

Total income of £17,706,000 (2005: £16,336,000) includes special dividends of £2,346,000 (2005: £1,078,000) of which £1,661,000 (2005: £419,000) is recognised through revenue and £685,000 (2005: £659,000) is recognised through capital in recognition of the nature of the events resulting in the dividend.

No income in either year arose on securities sold ex dividend within one month of purchase cum dividend.

Notes to the Accounts

Continued

3 Business and geographical segments

The Directors are of the opinion that the Group is engaged in a single segment of business of investing in equity and fixed interest securities, issued by companies operating in a single geographical segment

4 Investment management fee

	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Investment management fee including irrecoverable VAT thereon	900	2,100	3,000	867	2,023	2,890

The Company's investment manager is F&C Asset Management plc. The contract between the Company and F&C Asset Management plc may be terminated at any date by either party giving 6 months' notice of termination. In the event of the Company terminating the contract by giving less than 6 months' notice, F&C Asset Management plc is entitled to compensation calculated as a proportion of the fees payable by the Company in respect of the previous financial year. Notwithstanding any other clause in the contract, the Company may terminate the investment manager's appointment immediately and without payment of compensation by written notice at any time following the passing of a resolution to wind up the Company on 28 February 2007 in accordance with the Articles of Association. F&C Asset Management plc receives an annual fee, payable quarterly in arrears, equal to 0.8 per cent of the value of the total assets of the Company.

5 Other expenses (including irrecoverable VAT thereon)

	2006 £'000	2005 £'000
Directors' fees (Note 6)	83	80
Auditors' remuneration for		
– audit	18	18
– other services to the Company	22	7
Other	266	301
	389	406

In addition, certain other expenses charged to capital amounted to £45,000 (2005: £128,000)

6 Directors' fees

The emoluments of the Chairman, the highest paid Director, were at the rate of £22,500 per annum (2005: £21,000). Other Directors' emoluments amounted to £15,000 each per annum (2005: £14,000).

7 Finance costs

	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 (restated) Revenue £'000	2005 (restated) Capital £'000	2005 (restated) Total £'000
Finance costs attributable to £105 million term loan	2,044	4,769	6,813	2,049	4,782	6,831
Finance costs attributable to zero dividend preference shares	–	9,983	9,983	–	9,200	9,200
Finance costs attributable to income shares	13,444	–	13,444	13,444	–	13,444
	15,488	14,752	30,240	15,493	13,982	29,475

8a Tax on ordinary activities

	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Corporation tax – current year	–	–	–	–	–	–

The Company has £18,127,000 unutilised management expenses at 30 September 2006 (2005 £16,189,000). No deferred tax asset has been recognised on the unutilised management expenses as it is unlikely there will be suitable taxable profits from which the future reversal of the deferred tax asset could be deducted.

8b Factors affecting tax charge for current year

A reconciliation of the current tax charge is set out below

	2006 Total £'000	2005 Total (Restated) £'000
(Losses)/profits on ordinary activities before tax	(5,688)	16,230
Taxation on ordinary activities at the UK standard rate of corporation tax (30%)	(1,706)	4,869
Effects of		
– Non taxable dividend income	(2,818)	(2,306)
– Non taxable capital gains	(3,189)	(9,838)
– Excess management expenses	3,680	3,242
– Non allowable finance costs	4,033	4,033
Current year tax charge	–	–

9 Dividends, classified as finance charges

	2006 Revenue £'000	2005 Revenue £'000
Amounts recognised as distributions to income shareholders in the period		
– Fourth quarter's dividend for the year ended 30 September 2005 paid at 1 375p per income share (2004 1 375p)	3,455	3,455
– First quarter's dividend for the year ended 30 September 2006 paid at 1 325p per income share (2005 1 325p)	3,329	3,329
– Second quarter's dividend for the year ended 30 September 2006 paid at 1 325p per income share (2005 1 325p)	3,330	3,330
– Third quarter's dividend for the year ended 30 September 2006 paid at 1 325p per income share (2005 1 325p)	3,330	3,330
	13,444	13,444
Proposed fourth quarter's dividend for the year ended 30 September 2006 of 1 375p per income share (2005 1 375p)	3,455	3,455

There were 251,282,051 income shares in issue at 30 September 2006 (2005 251,282,051)

10 Returns per share

	2006 Revenue £'000	2006 Capital £'000	2005 Revenue £'000	2005 Capital £'000
(Loss)/profit attributable to basic return per capital share	(106)	(5,582)	(1,089)	17,319
Finance costs attributable to zero dividend preference shares	–	9,983	–	9,200
Finance costs attributable to income shares	13,444	–	13,444	–
Profit attributable to basic return per ordinary unit	13,338	4,401	12,355	26,519
			2006	2005
Number of capital shares and ordinary units used to determine returns			251,282,051	251,282,051

Notes to the Accounts

Continued

11 Investments held at fair value through profit or loss

	Company		Group	
	2006 £'000	2005 (restated) £'000	2006 £'000	2005 (restated) £'000
Listed securities	312,339	308,595	312,339	308,595
Subsidiary undertaking	250	255	–	–
	312,589	308,850	312,339	308,595

	Company		Group	
	Listed/ Quoted £'000	Unlisted £'000	Total £'000	Listed/ Quoted Total £'000
Opening book cost at 30 September 2005	263,016	250	263,266	263,016
Opening unrealised appreciation	45,579	5	45,584	45,579
Opening valuation at 30 September 2005	308,595	255	308,850	308,595
Movements in the year				
Purchases at cost	51,925	–	51,925	51,925
Sales – proceeds	(58,084)	–	(58,084)	(58,084)
– realised gains on sales	1,268	–	1,268	1,268
Increase in unrealised appreciation	8,635	(5)	8,630	8,635
Closing valuation at 30 September 2006	312,339	250	312,589	312,339
Closing book cost at 30 September 2006	258,125	250	258,375	258,125
Closing unrealised appreciation	54,214	–	54,214	54,214
Closing valuation at 30 September 2006	312,339	250	312,589	312,339

	Company		Group	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Equity shares	204,312	193,255	204,062	193,000
Fixed interest – UK denominated	90,008	91,698	90,008	91,698
– Overseas denominated	18,269	23,897	18,269	23,897
	312,589	308,850	312,339	308,595
Net gain on realisation of investments	1,268	8,563	1,268	8,563
Movement in unrealised appreciation	8,630	23,801	8,635	23,797
Gains on investments	9,898	32,364	9,903	32,360

The Group incurred transaction costs of £184,000 (2005 £131,000) on the purchase of assets and £48,000 (2005 £44,000) on the sale of assets

Net gain on realisation of investments during the year represents the difference between the net proceeds of sale and the book cost of the investments sold. Of the £1,268,000 gain recognised during the year, a gain of £1,790,000 was included in unrealised appreciation at 30 September 2005. In 2005, of the £8,563,000 gain recognised during the year, a gain of £6,558,000 was included in unrealised appreciation at 30 September 2004.

Movement in unrealised appreciation represents the increase in the difference between the book cost of investments held and their market value at 30 September 2006.

12 Significant interests

As at 30 September 2006, the Company's subsidiary undertaking which deals in investments, is

Name	Country of Incorporation or Registration	Class of Capital	Share Capital and Reserves £'000	Profit for the year £'000	% of Class held	% of Equity held	Valuation at 30.9.06 £'000
Investors Securities Company Limited	Scotland	Ordinary	250	5	100	100	250

At 30 September 2006, no investments were held by the dealing subsidiary (2005 same)

13 Other receivables

	Company		Group	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Due from brokers	—	461	—	461
Income receivable from shares and securities	5,083	4,629	5,083	4,629
Taxation recoverable	89	44	89	44
Loan to subsidiary undertaking	—	400	—	—
Unrealised gain on foreign exchange currency contracts	356	378	356	378
Sundry debtors	2	3	2	3
	5,530	5,915	5,530	5,515

14 Cash and cash equivalents

All cash balances were held in cash, current accounts or in banks on short term deposits with an original maturity of three months or less at the year end

15 Other payables

	Company		Group	
	2006 £'000	2005 (restated) £'000	2006 £'000	2005 (restated) £'000
Investment management fee	746	746	746	746
Estimated liquidation costs	350	—	350	—
Loan from subsidiary undertaking	250	—	—	—
Accrued expenses	104	178	104	180
Due to brokers	—	2,052	—	2,052
	1,450	2,976	1,200	2,978

Notes to the Accounts

Continued

16 Bank loan

	Company and Group	
	2006	2005 (restated)
	£'000	£'000
£105 million term loan maturing 28 February 2007	105,000	105,000
Interest rate swap	307	2,006
	105,307	107,006

The term loan carries interest at 0.65 per cent over LIBOR, this variable rate has been fixed through an interest rate swap, which matures on 28 February 2007, and results in an effective interest rate of 6.49 per cent per annum. The term loan contains certain financial covenants with which the Company must comply. These include a financial covenant to the effect that the percentage of the total amounts drawn down under the term loan (together with any other borrowings) should not exceed 45 per cent of the Company's qualifying investments (including cash).

The fair value of the interest rate swap at 30 September 2006 is estimated at £307,000 (2005: £2,006,000). The swap is designated and effective as a cash flow hedge and the fair value thereof has been deferred in equity. An amount of £1,245,000 (2005: £1,085,000) has been offset against hedged interest payments made in the period.

The marked to market value of the loan arrangement at 30 September 2006 was £105,307,000 (2005: £107,006,000) and the fair value of the loan was £105,000,000 (2005: £105,000,000).

17 Memorandum – net assets attributable to shareholders

The zero dividend preference shares were issued in June 2001. They were issued at 33p per share and will be redeemed on 28 February 2007 at 52.45p per share, an effective interest rate of 8.5 per cent per annum. There were 251,282,051 zero dividend preference shares in issue at 30 September 2006 (2005: 251,282,051).

	2006 £'000	2005 £'000
Zero dividend preference shares of 1p each	127,420	117,437
The net asset value attributable to shareholders is represented by		
	2006 £'000	2005 £'000
Called up share capital	7,539	7,539
Share premium account	50,238	50,238
Capital reserve – realised	(1,218)	12,896
Capital reserve – unrealised	54,183	43,952
Capital redemption reserve	56,145	56,145
Preference share redemption reserve	44,497	34,514
Revenue reserve	6,266	6,372
	217,650	211,656

Amounts in the revenue reserve, unlike other reserves, may be distributed by way of dividend.

18 Memorandum – share capital

	2006 Shares	2005 Shares	2006 £'000	2005 £'000
Authorised at 30 September				
Capital shares of 1p each	2,476,000,000	2,476,000,000	24,760	24,760
Income shares of 1p each	2,476,000,000	2,476,000,000	24,760	24,760
Zero dividend preference shares of 1p each	2,476,000,000	2,476,000,000	24,760	24,760
			74,280	74,280
Allotted, issued and fully paid at 30 September				
Capital shares of 1p each	251,282,051	251,282,051	2,513	2,513
Income shares of 1p each	251,282,051	251,282,051	2,513	2,513
Zero dividend preference shares of 1p each	251,282,051	251,282,051	2,513	2,513
			7,539	7,539

For further details of the Company's share capital concerning the capital income and other entitlements refer to the section of the annual report entitled 'Capital Structure'.

19 Net asset value per ordinary unit

The net asset value per ordinary unit and per constituent security and the net asset values attributable at the year end are calculated in accordance with their entitlements in the Articles of Association and were as follows

	Net asset value per ordinary unit		Net asset values attributable	
	2006 pence	2005 pence	2006 £'000	2005 £'000
Ordinary units	86 6	84 2	217,650	211,656

The movements during the year of the assets attributable to shareholders were as follows

	2006 £'000
Total net assets attributable at beginning of year	211,656
Profit before finance costs and tax	24,552
Finance costs attributable to £105 million term loan	(6,813)
Movement in fair value of interest rate swap	1,699
Dividends appropriated in the year	(13,444)
Total net assets attributable at end of year	217,650

Net asset values per ordinary unit are calculated on capital shareholders' funds of £nil (2005 £nil) plus the value attributable to the zero dividend preference shares of £127,420,000 (2005 £117,437,000) plus the value attributable to the income shares of £90,230,000 (2005 £94,219,000) all divided by the number of notional ordinary units in issue of 251,282,051 (2005 251,282,051) to give 86 6p (2005 84 2p). Both the zero dividend preference shares and the income shares have been classified as debt under International Financial Reporting Standards

Constituent securities of ordinary units

The ordinary units had a net asset value of 86 6p at 30 September 2006 (2005 84 2p), based on attributable net assets of £217,650,000 (2005 £211,656,000), and can be divided into the following constituent parts

	2006			2005		
	Shares in issue	Capital entitlement	Attributable net assets £'000	Shares in issue	Capital entitlement	Attributable net assets £'000
Zero dividend preference shares	251,282,051	50 7p	127,420	251,282,051	46 7p	117,437
Income shares	251,282,051	35 9p	90,230	251,282,051	37 5p	94,219
Capital shares	251,282,051	0 0p	–	251,282,051	0 0p	–

Each ordinary unit contains one zero dividend preference share, one income share and one capital share

The zero dividend preference shares were each issued at 33p and accrue capital at a daily compound rate until 28 February 2007, at which point they will be repaid 52 45p in full satisfaction of the capital entitlement assuming the Company has sufficient capital

The income shares rank behind the zero dividend preference shares but ahead of the capital shares. The income shares were issued at 54p each, and assuming sufficient assets at a future date of repayment, they will be entitled to be repaid the full 54p. Only income shares are entitled to dividends declared by the Company.

Capital shares are entitled to all of the remaining assets after repaying the Company's liabilities and the entitlements of the zero dividend preference shares and the income shares.

The geared units, which comprise one income share and one capital share, had a net asset value of 35 9p at 30 September 2006 (2005 37 5p).

Notes to the Accounts

Continued

20 Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and borrowings which include an interest rate swap. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company makes use of borrowings to achieve enhanced returns. The downside risk of borrowings can be reduced by raising the level of cash balances held. At 30 September 2006, borrowings were substantially matched in value by cash balances and fixed interest securities.

Investments held (see note 11) are valued at bid prices which equate to their fair values. The fair value of the term loan, fixed through an interest rate swap for the same value and with the same maturity as the loan, is detailed in note 16. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet. The fair value of the interest rate swap is disclosed in note 16.

The Company has zero dividend preference shares, capital shares and income shares in issue. The fair value of these shares at 30 September 2006 was 50.75p, 0.09p and 33.75p respectively (2005: 47.75p, 0.25p and 34.25p respectively) being the middle market prices. A more detailed explanation of the share capital is contained in note 18.

21 Market price risk

The management of market price risk is part of the fund management process and is typical of equity and fixed interest investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Investment and portfolio performance are discussed in more detail in the Manager's Review. Further information on the investment portfolio is set out in the "Equities and Fixed Interest Portfolio" sections of this report. Derivatives may be used from time to time. Other than currency hedging arrangements in relation to non sterling denominated fixed interest securities held, none were used in the past year.

22 Credit risk

The Group's principal financial assets are bank balances and cash, other receivables and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Group has no significant concentration of credit risk with exposure spread over a number of counterparties.

23 Interest rate and liquidity risk

Floating rate

When the Company retains cash balances the majority of the cash is held in deposit accounts. The benchmark rate which determines the interest payments received on cash balances is the bank base rate, which was 4.75 per cent at 30 September 2006.

Fixed rate

The Company holds fixed interest investments and has fixed interest liabilities.

	2006			2005		
	£'000	Average interest rate	Average duration until maturity	£'000	Average interest rate	Average duration until maturity
Fixed interest investments						
Fixed interest portfolio	108,277	7.19	2.4 years	115,595	7.22	2.9 years
Fixed interest liabilities						
£105 million term loan	105,000	6.49	0.4 years	105,000	6.49	1.4 years

The Company's equities portfolio does not contain any fixed interest or floating rate interest assets. Details of the Company's equities portfolio is given in Note 11.

The £105 million term loan has been classified as fixed as the variable rate loan has been fixed by an interest rate swap of the same nominal value and duration as the loan.

In respect of liquidity risk, the Company's assets comprise primarily realisable securities. Short term flexibility is achieved by retaining cash and where necessary through the use of overdraft facilities.

24 Foreign currency risk

In order to achieve a diversified portfolio of fixed interest securities the Company invests partly in overseas securities and it holds foreign currency cash balances which gives rise to currency risks. In the year to 30 September 2006 the Company entered into US Dollar and Euro foreign currency contracts with a view to hedging these currency risks. Foreign currency exposure at 30 September 2006 was as follows

	2006 Investments	Other Current Assets	2006 Cash	2005 Investments (restated)	Current Assets	2005 Cash
	£'000	£'000	£'000	£'000	£'000	£'000
US Dollar	7,916	–	114	9,733	–	1,292
Euro	10,353	–	53	14,164	(873)	807
	18,269	–	167	23,897	(873)	2,099

As noted above the Company hedged currency exposure in US Dollars and Euros by way of foreign exchange currency contracts. As at 30 September 2006 the foreign exchange currency contracts not yet realised were as follows

	2006 Hedged amount	2006 Unrealised gain	2005 Hedged amount	2005 Unrealised gain
	£'000	£'000	£'000	£'000
US Dollars for Sterling	8,017	157	11,200	119
Euro for Sterling	10,537	199	14,335	259
	18,554	356	25,535	378

Total gains in the year from foreign exchange currency contracts and balances held in cash were £727,000 (2005: £433,000) including the gain of £378,000 included within unrealised gains at 30 September 2005. All foreign exchange currency contracts in place at 30 September 2006 are due to expire during the following year (2005: same).

Notes to the Accounts

Continued

25 Explanation of transition to International Financial Reporting Standards

Restatement of opening balances as at 30 September 2004

In accordance with IFRS1, "First Time Adoption of Financial Reporting Standards", the following is a reconciliation of the Group figures at 1 October 2004 previously reported under the applicable UK Accounting Standards and with the Statement of Recommended Practice

	Notes	(Audited) Previously reported 1 October 2004 £'000	Adjustments £'000	(Audited) Restated 1 October 2004 £'000
Investments held at fair value through profit or loss	(i)	286,680	(325)	286,355
Current assets		7,976		7,976
Current liabilities	(ii)	(4,554)	3,455	(1,099)
Non current liabilities	(iii), (iv)	(105,000)	(188,232)	(293,232)
Net assets		185,102		-
Capital and reserves				
Called up share capital	(iii)	7,539	(7,539)	-
Share premium account	(iii)	50,238	(50,238)	-
Capital reserve – realised	(iii)	20,066	(20,066)	-
Capital reserve – unrealised	(i), (iii), (iv)	21,794	(21,794)	-
Capital redemption reserve	(iii)	56,145	(56,145)	-
Preference share redemption reserve	(iii)	25,314	(25,314)	-
Revenue reserve	(ii), (iii)	4,006	(4,006)	-
Shareholders' funds		185,102		-

Notes to the reconciliation

- (i) Investments are classified as held at fair value under IFRS and are carried at bid prices which equates to their fair value of £286,355 000 as at 1 October 2004. Equity investments were carried at mid prices previously. The resultant difference of £325 000 is adjusted against the capital reserve unrealised.
- (ii) No provision has been made for the final dividend for the year ended 30 September 2004 of £3,455 000. Under IFRS dividends are not recognised until paid.
- (iii) The zero dividend preference shares have been reclassified from equity to non current liabilities as given they have a fixed date of redemption and redemption premium they meet the definition of a financial liability under IFRS. These are recognised at amortised cost of £108,237 000 as at 30 September 2004.
The income shares have also been reclassified from equity to non current liabilities as given these are entitled to be repaid the issue price of 54p per income share at 28 February 2007, they meet the definition of a financial liability under IFRS. These are recognised at net assets attributable of £78,072 000 as at 30 September 2004.
- (iv) The Company has entered into an interest rate swap to fix the rate on the £105,000 000 bank loan at 6.49 per cent per annum. Under IFRS this swap is carried as a liability at its fair value of £1,923 000 at 30 September 2004. This is recognised within capital reserve – unrealised.

The Group adjustments noted above are identical to those made to the accounts of the Company

25 Explanation of transition to International Financial Reporting Standards (continued)

Restatement of balances as at 30 September 2005

In accordance with IFRS1, "First Time Adoption of Financial Reporting Standards", the following is a reconciliation of the Group figures at 30 September 2005 previously reported under the applicable UK Accounting Standards and with the Statement of Recommended Practice

	Notes	(Audited) Previously reported 30 September 2005 £'000	Adjustments £'000	(Audited) Restated 30 September 2005 £'000
Investments held at fair value through profit or loss	(i)	309,012	(417)	308,595
Current assets		13,045		13,045
Current liabilities	(ii)	(6,433)	3,455	(2,978)
Non current liabilities	(iii), (iv)	(105,000)	(213,662)	(318,662)
Net assets		210,624		—
Capital and reserves				
Called up share capital	(iii)	7,539	(7,539)	—
Share premium account	(iii)	50,238	(50,238)	—
Capital reserve – realised	(iii)	12,896	(12,896)	—
Capital reserve – unrealised	(i), (iii), (iv)	46,375	(46,375)	—
Capital redemption reserve	(iii)	56,145	(56,145)	—
Preference share redemption reserve	(iii)	34,514	(34,514)	—
Revenue reserve	(ii) (iii)	2,917	(2,917)	—
Shareholders' funds		210,624		—

Notes to the reconciliation

- (i) Investments are classified as held at fair value under IFRS and are carried at bid prices which equates to their fair value of £308,595,000 as at 30 September 2005. Equity investments were carried at mid prices previously. The resultant difference of £417,000 is adjusted against the capital reserve unrealised.
- (ii) No provision has been made for the final dividend for the year ended 30 September 2005 of £3,455,000. Under IFRS dividends are not recognised until paid.
- (iii) The zero dividend preference shares have been reclassified from equity to non-current liabilities as given they have a fixed date of redemption and redemption premium they meet the definition of a financial liability under IFRS. These are recognised at amortised cost of £117,437,000 as at 30 September 2005.
- The income shares have also been reclassified from equity to non-current liabilities as given these are entitled to be repaid the issue price of 54p per income share at 28 February 2007 they meet the definition of a financial liability under IFRS. These are recognised at net assets attributable of £94,219,000 as at 30 September 2005.
- Refer to Note 17 for memorandum of net assets attributable to shareholders.
- (iv) The Company has entered into an interest rate swap to fix the rate on the £105,000,000 bank loan at 6.49 per cent per annum. Under IFRS this swap is carried as a liability at its fair value of £2,006,000 at 30 September 2005. This is recognised within capital reserve – unrealised.

The Group adjustments noted above are identical to those made to the accounts of the Company.

Reconciliation of the Statement of Total Return for the year ended 30 September 2005 to the Income Statement

Under IFRS the Income Statement is the equivalent of the Statement of Total Return as reported previously

	£'000	Per share p
Total transfer to reserves per Statement of Total Return	16,322	6.5
Change from mid to bid basis at 30 September 2004	325	0.1
Change from mid to bid basis at 30 September 2005	(417)	(0.1)
Net profit per Income Statement	16,230	6.5

Notes to the reconciliation

Investments at 30 September 2004 and 30 September 2005 are required to be valued at bid prices which equates to their fair value under IFRS. They were valued at mid prices previously. These values differ from the previous valuations by £325,000 and £417,000 respectively.

As the income shares have been reclassified as debt those dividends paid on these shares are included within finance charges on the face of the Income Statement.

Statement of Directors' Responsibilities and Independent Auditors' Report to the members of Investors Capital Trust plc

Statement of Directors' Responsibilities in relation to the financial statements

The Directors are required by law to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group at the end of the financial period and of the revenue of the Group for that period

They are also responsible for ensuring that adequate accounting records are maintained and that the assets of the Company and the Group are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The financial statements have been prepared on a break up basis, appropriate accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements. Applicable International Financial Reporting Standards have been followed

Independent Auditors' Report to the members of Investors Capital Trust plc

We have audited the Group and Company financial statements (the 'financial statements') of Investors Capital Trust plc for the year ended 30 September 2006 which comprise Consolidated Income Statement, the Group and Company Balance Sheets, Consolidated Cash Flow Statement, and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions are not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Company Summary, Financial Highlights, Performance Summary, Chairman's Statement, Investment Managers and Investment Process, Manager's Review, Classification of Investments, Equities Portfolio, Fixed Interest Portfolio, Long Term Record, Capital Structure, Board of Directors, Report of the Directors, unaudited part of the Directors' Remuneration Report, Shareholder Information, Investment Service to Shareholders, Financial Calendar and Notice of Annual General meeting and Corporate Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

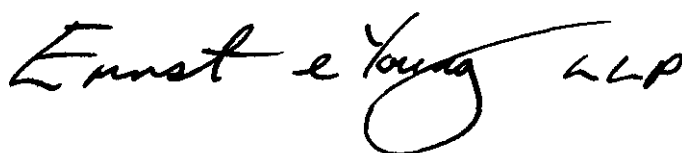
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2006 and of the net return for the year then ended,
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 30 September 2006,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditor
Edinburgh
13 November 2006



Shareholder Information

Number of Shareholders

At 30 September 2006, there were 6,964 ordinary unitholders (2005 7,178)

Ordinary units held at 30 September 2006

	2006	2005
Individuals and private client brokers	39%	37%
F&C Asset Management retail products	26%	26%
Institutions	35%	37%
	100%	100%

Dividends

Dividends on income shares are paid quarterly in February, May, August and November each year. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA on request. The Company operates the BACS system for the payment of dividends. Where dividends are paid directly into shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Capital Gains Tax Values

The undernoted values as at 31 March 1982 are to assist shareholders and debenture stockholders with regard to capital gains tax.

Ordinary Shares	25 $\frac{7}{8}$ p	4% Debenture Stock	23 $\frac{1}{4}$ p
3.675% Preference Stock	34 $\frac{1}{2}$ p	7 $\frac{1}{4}$ % Debenture Stock	55 $\frac{1}{4}$ p

The undernoted amounts are to assist shareholders and warrant holders with regard to capital gains tax, following the capital reorganisation in December 1994.

	First day of dealing value	Apportionment factor
Growth shares	84 $\frac{1}{4}$ p	0.6844
Income annuity shares	36 $\frac{1}{4}$ p	0.2912
Warrants	15p	0.0244

The income annuity shares are not considered to be wasting assets for capital gains tax purposes.

The undernoted amounts are to assist shareholders and warrant holders with regard to capital gains tax, following the capital reorganisation in June 2001.

	First day of dealing value	Apportionment factor
Zero dividend preference shares	35 $\frac{3}{4}$ p	0.3488
Income shares	53 $\frac{3}{4}$ p	0.5244
Capital shares	13p	0.1268

In respect of **reo**® UK Tracker Fund shares received, their base cost will represent the remaining base cost after the apportionment, if any, of the base cost to the other share classes.

Share Prices and Daily Net Asset Value

The Company's securities are listed on the London Stock Exchange under 'Investment Trusts'. Prices are given daily in the *Financial Times* and other newspapers. The net asset value of the Company's shares can be obtained by contacting F&C Asset Management Investment Services on 0845 600 3030.

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Lloyds TSB Registrars, under the signature of the registered holder.

Investment Services to Shareholders

How to Invest

The Company's investment manager, F&C, operates a number of savings products available for new investors who wish to invest in Investors Capital Trust plc in a cost effective and flexible way

These products are

- F&C Private Investor Plan
- F&C Investment Trust ISA
- F&C Investment Trust PEP
- F&C Children's Investment Plan
- F&C Child Trust Fund

For more information on any of these products please contact F&C's Investor Services Team

Call on **0800 136 420**

Fax on **0131 243 1330**

Email at **Info@fandc.com**

Visit **www.fandc.com**

The above has been approved by F&C Management Limited which is authorised and approved by the Financial Services Authority (FSA) Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise You may not get back the amount you originally invested

Illustrative Financial Calendar 2006/07

12 December 2006	Annual General Meeting
2 February 2007	First quarter's dividend on income shares paid (XD Date 3 January 2007)
28 February 2007	The Company has a planned life to 28 February 2007, subject to the ability of shareholders to approve an extension

Notice of Annual General Meeting

Notice is hereby given that the One Hundred and Fifteenth Annual General Meeting of Investors Capital Trust Public Limited Company will be held at 80 George Street, Edinburgh, on 12 December 2006 at 12 30 pm for the following purposes:

To consider and, if thought fit, pass the following Ordinary Resolutions

- 1 That the Report and Accounts for the year to 30 September 2006 be received
- 2 To approve the Directors' Remuneration Report for the year ended 30 September 2006
- 3 That Mr J M Haldane be re-elected as a Director
- 4 That Mr K D Shand be re-elected as a Director
- 5 That Mr J B Sherriff, a Director having attained the age of 70, be re-elected as a Director, special notice having been given pursuant to Sections 293 and 379 of the Companies Act 1985
- 6 That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration

By Order of the Board

M A Campbell

Secretary



80 George Street
Edinburgh EH2 3BU
13 November 2006

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not also be a member of the Company.

A Form of Proxy for use by holders of ordinary units, geared units and capital shares is enclosed with this Report. This Form of Proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney, to reach the Registrars at the address printed on the Form of Proxy not less than 48 hours before the meeting. Completion of the Form of Proxy will not prevent a holder from attending the meeting and voting in person.

Income shareholders and zero dividend preference shareholders are not entitled to attend or vote at the Meeting.

No Director has a contract of service with the Company.

Corporate Information

Directors

J M Haldane (Chairman)
M L Ingall
H Post
K D Shand
J B Sherriff

Registered Office

80 George Street
Edinburgh EH2 3BU
Tel No 0131 465 1000
Facsimile No 0131 225 2375

Investment Managers

F&C Asset Management plc
80 George Street
Edinburgh EH2 3BU

Registrars and Transfer Office

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Registrar's Shareholder Helpline
Tel No 0870 601 5366

Registrar's Broker Helpline
Tel No 0870 600 0158

Secretary

M A Campbell, CA

Brokers

Cenkos Securities plc
6 7 8 Tokenhouse Yard
London EC2R 7AS

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

Bankers

JPMorgan Chase Bank
125 London Wall
London EC2Y 5AJ

Solicitors

Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

Dickson Minto WS
16 Charlotte Square
Edinburgh EH2 4DF

For further information contact F&C Asset Management plc
on 0845 600 3030